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**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**  
**PUBLIC LIABILITY FUND**  
**WORKER'S COMPENSATION FUND**

**LOUISIANA MUNICIPAL RESERVE FUND AGENCY**

**LMA – UNEMPLOYMENT COMPENSATION FUND**

**DECEMBER 31, 2001**

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Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 6/26/02



LMRMA -  
Accident & Health

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**ACCIDENT AND HEALTH FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Accident and Health Fund (a quasi-public organization) (the Fund) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings (deficit), and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 6 to the financial statements, the Fund reported a deficit at December 31, 2001 and has incurred continuing losses from operations.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 3, 2002, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**BALANCE SHEETS**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

	<u>2001</u>	<u>2000</u>
Cash (note 4)	\$ 84,868	\$ 60,570
Investments (note 4)	840,105	1,310,824
Reinsurance receivable	625,332	286,229
Accounts receivable	239,281	67,414
Accrued interest receivable	7,973	20,997
	<u>\$ 1,797,559</u>	<u>\$ 1,746,034</u>

**LIABILITIES AND RETAINED (DEFICIT)**

Liabilities:		
Unpaid claims liability (note 3)	\$ 1,552,000	\$ 1,620,000
Accounts payable	367,919	215,314
Due to affiliates (note 2)	103,287	83,768
	<u>2,023,206</u>	<u>1,919,082</u>
Retained (deficit)	<u>(225,647)</u>	<u>(173,048)</u>
	<u>\$ 1,797,559</u>	<u>\$ 1,746,034</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES**  
**IN RETAINED EARNINGS (DEFICIT)**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b><u>REVENUES:</u></b>		
Premium income	\$ 9,854,584	\$ 8,457,755
Investment income (note 4)	65,162	99,372
	<u>9,919,746</u>	<u>8,557,127</u>
<b><u>EXPENSES:</u></b>		
Administrative fees (note 2)	17,060	17,342
Claims expense (note 3)	8,722,083	8,000,645
Reinsurance premiums	728,870	552,881
Service agent fees (note 2)	497,331	436,489
Miscellaneous	7,001	6,661
	<u>9,972,345</u>	<u>9,014,018</u>
Net loss	(52,599)	(456,891)
Retained (deficit) earnings, beginning of year	<u>(173,048)</u>	<u>283,843</u>
Retained (deficit) , end of year	<u><u>\$ (225,647)</u></u>	<u><u>\$ (173,048)</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b>Cash flows from operating activities:</b>		
Net loss	\$ (52,599)	\$ (456,891)
Less adjustment for investment income	<u>(65,162)</u>	<u>(99,372)</u>
	<u>(117,761)</u>	<u>(556,263)</u>
Adjustments to reconcile net loss to net cash used in operations:		
Change in reinsurance receivable	(339,103)	(196,806)
Change in receivables	(171,867)	3,106
Change in unpaid claims liability	(68,000)	(90,000)
Change in accounts payable, and due to affiliates	<u>172,125</u>	<u>24,014</u>
Total adjustments	<u>(406,845)</u>	<u>(259,686)</u>
Net cash used in operating activities	<u>(524,606)</u>	<u>(815,949)</u>
<b>Cash flows from investing activities:</b>		
Purchase of investments	(858,314)	(574,955)
Proceeds from sales/maturities of investments	1,337,931	1,273,028
Investment interest received	<u>69,287</u>	<u>90,979</u>
Net cash provided by investing activities	<u>548,904</u>	<u>789,052</u>
Net increase (decrease) in cash	24,298	(26,897)
Cash, beginning of year	<u>60,570</u>	<u>87,467</u>
Cash, end of year	<u><u>\$ 84,868</u></u>	<u><u>\$ 60,570</u></u>

See accompanying notes to financial statements.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The Accident and Health Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the board of the Fund after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. As of December 31, 2001 and 2000, there were 65 and 69 participating municipalities, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various retained earnings are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Investments***

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. government Agency obligations.

**(d) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

**(e) *Unpaid Claims Liability***

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expenses in the period in which they are made. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements.

**(f) *Cash and Cash Equivalents***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

1. **SIGNIFICANT ACCOUNTING POLICIES** (continued)

(g) *Reinsurance*

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Further description of the reinsurance coverage is described in Note 5. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. Claims expense consists of claims incurred during the current year, adjustments to the accounting estimate of prior years' claims expense and a reduction for claims covered by the reinsurer in accordance with the reinsurance policy.

(h) *Income Taxes*

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

(i) *Use of Estimates*

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

2. **RELATED PARTY TRANSACTIONS**

LMA and RMI provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are as follows:

	<u>2001</u>	<u>2000</u>
Expenses:		
Administrative fees - LMA (\$.60 per person per month)	\$ 17,060	\$ 17,342
Service agent fees - RMI (\$16.50 in 2001 And \$14.12 in 2000 for health and \$1.20 for dental participants)	\$ 497,331	\$ 436,489
Due to affiliates:		
LMA	\$ 1,424	\$ 1,433
RMI	<u>101,863</u>	<u>82,335</u>
	<u>\$ 103,287</u>	<u>\$ 83,768</u>





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the Fund's aggregate unpaid claims liabilities for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(Amounts in thousands)	
Unpaid claims and claim adjustment expenses liability at beginning of year	\$ 1,620	\$ 1,710
Incurred claims and claim adjustment expense-provision for insured events	8,722	8,001
Less payments – claims and claim adjustment expenses	<u>(8,790)</u>	<u>(8,091)</u>
Unpaid claims liability, end of year	\$ <u>1,552</u>	\$ <u>1,620</u>

Settled claims have not exceeded insurance coverages in any of the past three fiscal years.

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these funds shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the period ended December 31, 2001 and 2000.

All demand deposits and certificates of deposit are insured or collateralized by pledged securities held by an agent in the name of the Fund.

	<u>2001</u>	<u>2000</u>
Insured	\$ 84,868	\$ 60,570
Uninsured	<u>-</u>	<u>-</u>
	\$ <u>84,868</u>	\$ <u>60,570</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts, U.S. Government obligations and repurchase agreements.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$829,068 and \$1,311,284 at December 31, 2001 and 2000, respectively. The estimated fair value of investments by security type at December 31, 2001 and 2000 are as follows:

	<u>2001</u>	<u>2000</u>	<u>Category</u>
Certificates of deposit	\$ -	\$ 100,000	-
Money market accounts and repurchase agreements	222,761	299,217	-
U.S. Government Agency obligations	617,344	254,811	1
U.S. Treasury securities	<u>-</u>	<u>656,796</u>	1
	\$ <u>840,105</u>	\$ <u>1,310,824</u>	

The certificates of deposit, money market accounts, and repurchase agreements are insured or collateralized by obligations of the U.S. Government, registered in the name of and held by the Fund's agent.

The scheduled maturities of investments held were as follows at December 31:

	<u>Amortized</u> <u>Cost</u>	<u>Fair Market</u> <u>Value</u>
Due in one year	\$ 375,693	\$ 377,073
Due after one year through five years	<u>453,375</u>	<u>463,032</u>
	\$ <u>829,068</u>	\$ <u>840,105</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**ACCIDENT AND HEALTH FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

Investment income for the years ended December 31, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Interest income	\$ 54,275	\$ 89,572
Realized losses – net	( 610)	( 70)
Unrealized gains arising during the year	<u>11,497</u>	<u>9,870</u>
	<u>\$ 65,162</u>	<u>\$ 99,372</u>

**5. REINSURANCE POLICY COVERAGE**

The Fund and its reinsurers represent a cooperative program for group funding and risk management of *accident and health claims of participating Louisiana municipalities*. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants, and the Fund has the authority to assess the participants to fund any deficits incurred.

Subsequent to December 31, 1994, the Fund obtained reinsurance from a commercial insurer to provide the following coverage:

Item I: Annual aggregate in excess of 125% of annual earned normal premium.

Item II: \$900,000 each and every loss in excess of \$100,000 each and every loss.

The commercial reinsurer covered all claims incurred in 1995 and thereafter. No claims for reinsurance are outstanding from LMRFA as of December 31, 2001 and 2000.

**6. FUND DEFICIT**

At December 31, 2001, the Fund reported a deficit of \$225,647 and incurred net losses of \$52,599 and \$456,891 for the years ended December 31, 2001 and 2000, respectively. The Fund's cash and investments also decreased to \$924,975 at December 31, 2001. The Fund implemented premium rate increases effective January 1, 2002, 2001 and 2000 in order to meet the continued increase in claims cost and medical inflation.

Management expects the premium increases and reductions in covered benefits will be sufficient to return the Fund to profitability and to eliminate the current deficit; however, no assurances can be given that this will be accomplished. Should the Fund become unable to meet its obligations as they become due and the assets of the Fund were exhausted; member municipalities would be responsible for their respective outstanding claims.





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**Report on Compliance and on Internal Control over Financial  
Reporting Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Accident and Health Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Accident and Health Fund as of and for the year ended December 31, 2001, and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency - Accident and Health Fund, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002



**LMRMA –  
Public Liability**



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**PUBLIC LIABILITY FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency – Public Liability Fund (a quasi-public organization) (the Fund) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Public Liability Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 3, 2002, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2001 and 2000 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**BALANCE SHEETS**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

	<u>2001</u>	<u>2000</u>
Cash (note 4)	\$ 309,005	\$ 306,083
Investments (note 4)	12,441,407	13,114,981
Deductibles receivable	181,290	90,201
Accounts receivable	497,663	176,473
Accrued interest receivable	111,438	129,418
Reinsurance receivable (note 3)	62,742	159,881
Note receivable (note 2)	396,890	609,037
	<u>\$ 14,000,435</u>	<u>\$ 14,586,074</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 7,429,000	\$ 7,388,000
Unearned premiums	1,490,912	1,647,629
Due to affiliates - net (note 2)	307,633	203,876
Accrued expenses	35,369	4,262
	<u>9,262,914</u>	<u>9,243,767</u>
Retained earnings	<u>4,737,521</u>	<u>5,342,307</u>
	<u>\$ 14,000,435</u>	<u>\$ 14,586,074</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b><u>REVENUES</u></b>		
Premium income	\$ 5,479,930	\$ 5,391,660
Investment income (note 4)	<u>1,067,102</u>	<u>1,331,876</u>
Total revenue	<u>6,547,032</u>	<u>6,723,536</u>
<b><u>EXPENSES</u></b>		
Claims expense (note 3)	4,299,077	4,505,723
Administrative fees (note 2)	638,244	618,850
Reinsurance premiums (note 2)	1,312,959	1,273,063
Service agent fees (note 2)	875,306	848,709
Miscellaneous	<u>26,232</u>	<u>25,819</u>
Total expenses	<u>7,151,818</u>	<u>7,272,164</u>
Net loss	(604,786)	(548,628)
Retained earnings, beginning of year	<u>5,342,307</u>	<u>5,890,935</u>
Retained earnings, end of year	<u><u>\$ 4,737,521</u></u>	<u><u>\$ 5,342,307</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net loss	\$ (604,786)	\$ (548,628)
Less adjustment for investment income	<u>(1,067,102)</u>	<u>(1,331,876)</u>
	<u>(1,671,888)</u>	<u>(1,880,504)</u>
Adjustments to reconcile net loss to net cash used in operations:		
Change in receivables	(412,279)	150,797
Change in unpaid claims liability	41,000	(177,000)
Change in accrued expenses, unearned premiums and due to affiliates	<u>75,287</u>	<u>(506,658)</u>
Total adjustments	<u>(295,992)</u>	<u>(532,861)</u>
Net cash used in operating activities	<u>(1,967,880)</u>	<u>(2,413,365)</u>
Cash flows from investing activities:		
Purchases of investments	(6,027,285)	(3,455,085)
Proceeds from sales and maturity of investments	6,938,611	4,668,485
Investment interest received	847,330	800,565
Principal payments from note receivable	<u>212,147</u>	<u>203,291</u>
Net cash provided by investing activities	<u>1,970,802</u>	<u>2,217,256</u>
Net increase (decrease) in cash	2,922	(196,109)
Cash, beginning of year	<u>306,083</u>	<u>502,192</u>
Cash, end of year	<u><u>\$ 309,005</u></u>	<u><u>\$ 306,083</u></u>

See accompanying notes to financial statements.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of workers' compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the State of Louisiana are eligible to participate. The LMRMA Public Liability Fund's (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the board of the Fund after consultation with the actuary. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Public Liability Fund. As of December 31, 2001 and 2000, there were 186 and 195 participating municipalities, respectively.

The various LMRMA Funds, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various fund balances are available only to the individual entity for its operations. For this reason, each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Investments***

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. Government Agency obligations and are held for long-term purposes.

**(d) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

Accounts receivable are considered to be fully collectible by management; therefore, no reserve for bad debts has been established.

**(e) *Unpaid Claims Liability***

The Fund provides liability coverage to members for claims incurred during the benefit period regardless of when the claims are reported to the Fund. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the period in which they are made. The costs associated with new and renewal contracts as acquisition costs are immaterial to the financial statements and are expensed when incurred. The carrying amount of liabilities for claims losses and claims expenses is presented at the estimated claim amounts in the financial statements. Such reserves have been discounted at 5.8% at December 31, 2001 and 2000, respectively.

**(f) *Statement of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) *Reinsurance***

The Fund uses reinsurance to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

**(h) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(i) *Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**(j) *Reclassifications***

Certain items in the 2000 financial statements have been reclassified to be comparative to the 2001 presentation.

**2. RELATED PARTY TRANSACTIONS**

**(a) *Fees and Services***

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) as follows:

	<u>2001</u>	<u>2000</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP)	\$ <u>638,244</u>	\$ <u>618,850</u>
Service agent - RMI (12.0% of ESP)	\$ <u>875,306</u>	\$ <u>848,709</u>
Reinsurance - LMRFA (18.0% of ESP)	\$ <u>1,312,959</u>	\$ <u>1,273,063</u>
Reinsurance recoveries from LMRFA	\$ <u>943,340</u>	\$ <u>2,486,646</u>
Due to (from) affiliates:		
LMA	\$ 398,244	\$ 370,582
RMI	174,903	138,699
LMRFA	( <u>265,514</u> )	( <u>305,405</u> )
	\$ <u>307,633</u>	\$ <u>203,876</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

2. **RELATED PARTY TRANSACTIONS** (continued)

(b) *Note Receivable*

LMA has a variable rate note agreement with the Fund. The note bears an interest rate equal to the average investment return yielded by the Fund on its other investments (6.63% and 6.37% at December 31, 2001 and 2000, respectively). LMA is currently making monthly payments of \$20,425 due the first day of each month based on a 360 month amortization. Collateral for this note is a building owned by LMA. The Fund earned interest of \$32,948 and \$41,804 in respect to the note for the years ended December 31, 2001 and 2000, respectively.

The principal balances due at December 31, 2001 are scheduled to mature as follows:

2002	\$ 224,784
2003	<u>172,106</u>
	<u>\$ 396,890</u>

(c) *Premium Rebates*

During 2000, the Fund's participants used \$506,196 of unearned credits. During 2001, the Fund's participants used \$89,605 of unearned credits. This amount is included in unearned premiums at December 31, 2000 and was recognized as premium income during 2001.

3. **CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate unpaid claims liabilities for the Fund for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 13,942	\$ 14,985
Less: Reinsurance recoverables	<u>6,554</u>	<u>7,420</u>
Liability for unpaid losses at beginning of year (net)	<u>7,388</u>	<u>7,565</u>
Net incurred related to:		
Current year	3,243	2,696
Prior years	<u>1,056</u>	<u>1,810</u>
Total incurred	<u>4,299</u>	<u>4,506</u>
Net paid related to:		
Current year	578	499
Prior years	<u>3,680</u>	<u>4,184</u>
Total paid	<u>4,258</u>	<u>4,683</u>
Liability for unpaid losses at end of year (gross)	14,940	13,942
Reinsurance recoverables	<u>7,511</u>	<u>6,554</u>
Liability for unpaid losses at end of year (net)	<u>\$ 7,429</u>	<u>\$ 7,388</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY** (continued)

In addition to the unpaid claims covered by the Fund's reinsurer, there are \$62,742 and \$159,881 of paid claims which are recoverable from the reinsurer at December 31, 2001 and 2000, respectively.

The Fund's claims payable have been discounted for December 31, 2001 and 2000, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$776,000 and \$833,000 at December 31, 2001 and 2000, respectively.

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these agencies shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution in question. In regard to deposits and investments, the Fund is in compliance with these revised provisions as of and during the period ended December 31, 2001 and 2000.

The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance or pledged collateral.

	<u>2001</u>	<u>2000</u>
Insured	\$ 309,005	\$ 306,083
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 309,005</u>	<u>\$ 306,083</u>

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$12,212,571 and \$13,003,691 at December 31, 2001 and 2000, respectively. The estimated fair value of investments by security type at December 31, 2001 and 2000 are as follows:

	<u>2001</u>		<u>2000</u>	
	<u>Estimated</u>		<u>Estimated</u>	
	<u>Fair</u>		<u>Fair</u>	
	<u>Value</u>	<u>Category</u>	<u>Value</u>	<u>Category</u>
Certificates of deposit	\$ -	-	\$ 100,000	-
Money market accounts	59,141	-	446,462	-
U.S. Government Agency obligations	495,685	1	12,508,190	1
U.S. Treasury securities	<u>11,886,581</u>	<u>1</u>	<u>60,329</u>	<u>1</u>
	<u>\$ 12,441,407</u>		<u>\$ 13,114,981</u>	

The scheduled maturities of investments held were as follows at December 31, 2001:

	<u>Amortized</u>	<u>Fair Market</u>
	<u>Cost</u>	<u>Value</u>
Due in one year	\$ 495,685	\$ 495,685
Due after one year through five years	984,745	1,007,715
Due after five years through ten years	3,500,251	3,581,150
Due after ten years	<u>7,231,889</u>	<u>7,356,857</u>
	<u>\$ 12,212,571</u>	<u>\$ 12,441,407</u>

The U.S. Government Agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. The repurchase agreement, certificates of deposits, cash and money markets are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**PUBLIC LIABILITY FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

Included in investment balances as of December 31, 2001 and 2000 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$331,279 and \$1,474,501 as of December 31, 2001 and 2000, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Interest income	\$ 833,232	\$ 889,187
Realized gains (losses) – net	116,323	( 81,775)
Unrealized gains (losses) arising during the year	<u>117,547</u>	<u>524,464</u>
	<u>\$ 1,067,102</u>	<u>\$ 1,331,876</u>

**5. REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2001 and 2000, LMRFA provided reinsurance to LMRMA Public Liability Fund with the following limits:

Item I: \$5,000,000 annual aggregate excess of 65% of earned normal premium

Item II: \$400,000 each and every loss in excess of \$100,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.

Prior to 1993, Louisiana law limited the liability of the municipalities to \$500,000 per occurrence. During 1993, the Louisiana Supreme Court revoked this limit. The above "specific reinsurance limits" for the Public Liability Fund cover claims up to \$500,000. As of November 1, 1995, the statutory liability increased to \$750,000 from \$500,000. The Fund's coverage remains unchanged.

The following are condensed balance sheets for LMRFA at December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
Assets	\$ 36,076,882	\$ 34,016,804
Liabilities	<u>( 13,052,685)</u>	<u>( 12,460,182)</u>
Retained Earnings	<u>\$ 23,024,197</u>	<u>\$ 21,556,622</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
PUBLIC LIABILITY FUND**

**SCHEDULE**

**DECEMBER 31, 2001**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense (net of loss assumed by reinsurers) incurred by the Fund as of the end of 2001 and as of the end of each of the last nine years.

	2001	2000	1999	1998	1997 <sup>(1)</sup>	1996	1995	1994	1993	1992
	(in thousands)									
ENP and investment income	\$ 6,547	\$ 6,724	\$ 5,923	\$ 7,416	\$ 8,198	\$ 7,729	\$ 7,605	\$ 7,179	\$ 7,170	\$ 7,179
Operating costs unallocated	2,853	2,766	2,438	3,452	3,497	3,499	3,376	3,213	3,247	3,031
Estimated incurred claims and claims expense, end of policy year	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976	3,930	4,003
Paid (cumulative) as of:										
End of policy year	578	499	460	687	655	630	463	528	409	337
One year later	-	1,079	1,341	1,354	1,362	1,379	1,216	1,625	1,105	1,249
Two years later	-	-	2,574	2,528	2,343	2,137	2,815	2,482	2,019	2,668
Three years later	-	-	-	3,228	3,146	2,999	3,524	3,119	2,575	3,297
Four years later	-	-	-	-	3,570	3,432	3,696	3,400	3,027	3,531
Five years later	-	-	-	-	-	3,765	4,174	3,510	3,286	3,526
Six years later	-	-	-	-	-	-	4,202	3,630	3,348	3,578
Seven years later	-	-	-	-	-	-	-	3,710	3,423	3,618
Eight years later	-	-	-	-	-	-	-	-	3,433	3,682
Nine years later	-	-	-	-	-	-	-	-	-	3,683
Re-estimated incurred claims and claims expense:										
End of policy year	3,753	2,999	2,988	4,039	4,545	4,583	4,243	3,976	3,930	4,003
One year later	-	3,225	3,633	3,950	4,545	4,583	4,243	3,976	3,930	4,037
Two years later	-	-	3,917	4,065	3,769	4,583	4,243	3,976	3,930	4,037
Three years later	-	-	-	4,140	3,969	3,763	4,243	3,976	3,930	4,037
Four years later	-	-	-	-	4,136	4,044	4,117	3,976	3,930	4,037
Five years later	-	-	-	-	-	4,062	4,436	3,782	3,930	4,037
Six years later	-	-	-	-	-	-	4,456	3,839	3,491	4,037
Seven years later	-	-	-	-	-	-	-	3,853	3,535	3,737
Eight years later	-	-	-	-	-	-	-	-	3,525	3,757
Nine years later	-	-	-	-	-	-	-	-	-	3,726
Increase(decrease) in estimated incurred claims and expense from end of policy year	-	226	929	101	(409)	(521)	213	(123)	(405)	(277)

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





**Postlethwaite & Netterville**

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**Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Public Liability Fund

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Public Liability Fund as of and for the year ended December 31, 2001, and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency - Public Liability Fund, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LMRMA -  
Worker's Compensation**



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**

**WORKERS' COMPENSATION FUND**

**FINANCIAL STATEMENTS**

**DECEMBER 31, 2001 AND 2000**



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund

We have audited the accompanying balance sheets of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 3, 2002, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information presented for the years ended December 31, 2001 and 2000, has been subjected to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**BALANCE SHEETS**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

	<u>2001</u>	<u>2000</u>
Investments (note 4)	\$ 25,932,446	\$ 24,517,357
Accounts receivable	1,423,115	1,067,424
Reinsurance receivable (note 3)	250,343	286,039
Due from affiliates - net (note 2)	588,890	391,933
Accrued interest receivable	316,395	299,466
	<u>\$ 28,511,189</u>	<u>\$ 26,562,219</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:

Unpaid claims liability (note 3)	\$ 4,295,000	\$ 3,782,000
Unearned premium	464,409	538,060
Accounts payable and accrued expenses	888,765	809,543
	<u>5,648,174</u>	<u>5,129,603</u>
Retained earnings	<u>22,863,015</u>	<u>21,432,616</u>
	<u>\$ 28,511,189</u>	<u>\$ 26,562,219</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b><u>REVENUES:</u></b>		
Premium income	\$ 3,585,987	\$ 3,512,364
Investment income (note 4)	1,979,856	2,288,306
	<u>5,565,843</u>	<u>5,800,670</u>
<b><u>EXPENSES:</u></b>		
Claims expense (note 3)	2,683,703	2,480,014
Administrative fees (note 2)	367,229	367,959
Service agent fees (note 2)	419,691	420,525
Reinsurance premiums (note 2)	293,783	294,367
Second Injury Fund assessment	295,433	224,716
Office of Workers' Compensation assessment	40,674	91,249
Miscellaneous	34,931	46,217
	<u>4,135,444</u>	<u>3,925,047</u>
Total expenses	<u>4,135,444</u>	<u>3,925,047</u>
Net income	1,430,399	1,875,623
Retained earnings, beginning of year	<u>21,432,616</u>	<u>19,556,993</u>
Retained earnings, end of year	<u>\$ 22,863,015</u>	<u>\$ 21,432,616</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net income	\$ 1,430,399	\$ 1,875,623
Less adjustment for investment income	<u>(1,979,856)</u>	<u>(2,288,306)</u>
	<u>(549,457)</u>	<u>(412,683)</u>
Adjustments to reconcile net income to net cash used in operations:		
Change in receivables and reinsurance receivable	(319,994)	796,721
Change in unpaid claims liability	513,000	229,000
Change in accounts payable, accrued expenses unearned premiums and due from affiliates	<u>(191,386)</u>	<u>(1,311,598)</u>
Total adjustments	<u>1,620</u>	<u>(285,877)</u>
Net cash used in operating activities	<u>(547,837)</u>	<u>(698,560)</u>
Cash flows from investing activities:		
Investment interest received	1,606,877	1,560,017
Purchases of investments	(25,942,276)	(14,855,911)
Proceeds from sales and maturities of investments	<u>24,883,236</u>	<u>13,994,454</u>
Net cash provided by investing activities	<u>547,837</u>	<u>698,560</u>
Net change in cash	-	-
Cash, beginning of year	<u>-</u>	<u>-</u>
Cash, end of year	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

See accompanying notes to financial statements.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Risk Management Agency (LMRMA) was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The LMRMA-Workers' Compensation Fund (the Fund) general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the board of the Fund, after consultation with the actuaries. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRMA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

Louisiana Municipal Reserve Fund Agency (LMRFA) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the LMRMA Workers' Compensation Fund. As of December 31, 2001 and 2000, there were 185 and 182 participating municipalities, respectively.

The various LMRMA Funds, LMA and LMRFA are all affiliated through common membership and management control. Although all of these entities are related parties, their various retained earnings are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(c) *Investments***

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements and U.S. Government Agency and Treasury obligations.

**(d) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

**(e) *Unpaid Claims Liability***

The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expense are presented at present value in the financial statements. The costs associated with new and renewed contracts and acquisition costs are immaterial to the financial statements and are expensed when incurred. Such reserves have been discounted at 5.8% at December 31, 2001 and 2000, respectively.

**(f) *Statement of Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(g) *Reinsurance***

The Fund uses reinsurance agreements to reduce its exposure to large losses on insured events. Reinsurance permits recovery of a portion of losses from reinsurers, although it does not discharge the primary liability of the Fund as the direct insurer of the risks reinsured. The Fund does not report reinsured risks as liabilities unless it is probable that those risks will not be covered by reinsurers. As of May 1, 1986, LMRFA became the reinsurer for the Fund.

**(h) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(i) *Insurance Related Assessments***

The Fund is subject to assessments made by the Second Injury Fund and the Office of Workers' Compensation based on benefits paid each year. The Fund recognized these assessments as expense related claim benefits are incurred rather than paid. Changes in assessment rates are adjusted in the year such information is available.

**(j) *Use of Estimates***

Management of the Funds has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provides services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) as follows:

	<u>2001</u>	<u>2000</u>
Expenses (and current fee structure):		
Administrative fee - LMA (8.75% of ESP) \$	\$ 367,229	\$ 367,959
Service Agent - RMI (10.0% of ESP) \$	\$ 419,691	\$ 420,525
Reinsurance - LMRFA (7.0% of ESP) \$	\$ 293,783	\$ 294,367
Reinsurance recoveries from LMRFA \$	\$ 783,570	\$ 671,917
Due (to) from affiliate:		
LMA \$	\$ (67,232)	\$ (85,557)
RMI	240,247	117,038
LMRFA	415,895	360,452
	<u>\$ 588,890</u>	<u>\$ 391,933</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**2. RELATED PARTY TRANSACTIONS** (continued)

During 1999, LMA's board resolved to rebate \$725,737 of the 1998 earned administrative fees back to the Fund. This amount is included in unearned premiums at December 31, 1999 and was recognized as premium income during 2000.

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 8,969	\$ 8,353
Less: Reinsurance recoverables	<u>5,187</u>	<u>4,800</u>
Liability for unpaid losses at beginning of year (net)	<u>3,782</u>	<u>3,553</u>
Net incurred related to:		
Current year	1,544	1,992
Prior years	<u>1,140</u>	<u>488</u>
Total incurred	<u>2,684</u>	<u>2,480</u>
Net paid related to:		
Current year	499	716
Prior years	<u>1,672</u>	<u>1,535</u>
Total paid	<u>2,171</u>	<u>2,251</u>
Liability for unpaid losses at end of year (gross)	9,107	8,969
Reinsurance recoverables	<u>4,812</u>	<u>5,187</u>
Liability for unpaid losses at end of year (net)	<u>\$ 4,295</u>	<u>\$ 3,782</u>

In addition to the unpaid claims covered by the reinsurers, there are \$250,343 and \$286,039 of paid claims which are recoverable from the reinsurer at December 31, 2001 and 2000, respectively. Settled claims have not exceeded insurance coverage.

The Fund's claims payable have been discounted for December 31, 2001 and 2000, based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8% which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$926,000 and \$730,000 at December 31, 2001 and 2000, respectively.



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS**

The Fund must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by these Fund's shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund is in compliance with these revised provisions during the years ended December 31, 2001 and 2000.

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements. During 1995, the Fund changed its policy of maintaining a cash account into wire-transferring cash as needed from investments to support disbursements. Consequently, a zero cash balance is now maintained.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name. The amortized cost of the Fund's investments are \$25,242,344 and \$24,041,105 at December 31, 2001 and 2000, respectively. The estimated fair value of investments by security type at December 31, 2001 and 2000 are as follows:

	2001		2000	
	Estimated Fair Value	Category	Estimated Fair Value	Category
Certificates of deposit	\$ -	-	\$ 100,000	-
Money market accounts	451,913	-	536,137	-
U.S. Government Agency Obligations	11,804,759	1	10,137,061	1
U.S. Treasury obligations	13,675,774	1	13,744,159	1
	<u>\$ 25,932,446</u>		<u>\$ 24,517,357</u>	

The scheduled maturities of investments held were as follows at December 31, 2001:

	Amortized Cost	Fair Market Value
Due in one year	\$ 451,913	\$ 451,913
Due after one year through five years	8,941,035	9,222,419
Due after five years through ten years	9,048,209	9,235,760
Due after ten years	6,801,187	7,022,354
	<u>\$ 25,242,344</u>	<u>\$ 25,932,446</u>



**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

Included in investment balances as of December 31, 2001 and 2000 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$253,331 and \$1,076,845 as of December 31, 2001 and 2000, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Interest income	\$ 1,510,036	\$ 1,504,353
Realized gains (losses) – net	255,970	( 134,965)
Unrealized gains arising during the year	<u>213,850</u>	<u>918,918</u>
	<u>\$ 1,979,856</u>	<u>\$ 2,288,306</u>

**5. REINSURANCE POLICY COVERAGE**

During the years ended December 31, 2001 and 2000, LMRFA provided excess reinsurance to the Fund with the following limits:

- Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium
- Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

The Fund and LMRFA represent a cooperative program for group funding and risk management of public liability, workers' compensation and accident and health claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remain with the participants.

The following are condensed balance sheets for LMRFA at December 31, 2001 and 2000.

	<u>2001</u>	<u>2000</u>
Assets	\$ 36,076,882	\$ 34,016,804
Liabilities	<u>( 13,052,685)</u>	<u>( 12,460,182)</u>
Retained earnings	<u>\$ 23,024,197</u>	<u>\$ 21,556,622</u>





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY**  
**WORKERS' COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**5. REINSURANCE POLICY COVERAGE**

Beginning January 1, 1995, LMRFA purchased reinsurance for workers' compensation claims from a third party reinsurer. The third party provides reinsurance to LMRFA with the following aggregate coverage.

Item I:     \$1,000,000 annual aggregate

Item II:    \$1,000,000 each and every loss in excess of \$50,000 each and every loss up to \$750,000

The third party reinsurer is only responsible for those claims incurred subsequent to January 1, 1995. LMRFA is the reinsurer for the claims incurred during the years prior to January 1, 1995.





**LOUISIANA MUNICIPAL RISK MANAGEMENT AGENCY  
WORKERS' COMPENSATION FUND**

**SCHEDULE  
DECEMBER 31, 2001**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2001 and as of the end of each of the last nine years.

	2001	2000	1999	1998	1997 <sup>(1)</sup>	1996	1995	1994	1993	1992
	(in thousands)									
ENP and investment income	\$ 5,566	\$ 5,801	\$ 4,369	\$ 8,896	\$ 8,805	\$ 8,094	\$ 9,506	\$ 9,569	\$ 9,886	\$ 8,572
Operating costs, unallocated	1,452	1,445	1,502	3,327	2,836	2,889	3,380	2,991	3,136	2,529
Estimated incurred claims and expense, end of policy year	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352	7,041	5,913
Paid (cumulative) as of:										
End of policy year	499	716	463	469	811	725	1,007	819	1,033	1,343
One year later	-	1,475	1,074	1,067	1,377	1,218	1,940	1,736	2,109	3,240
Two years later	-	-	1,424	1,459	1,726	1,280	2,276	2,137	2,611	4,089
Three years later	-	-	-	1,541	1,937	1,376	2,480	2,456	2,989	4,472
Four years later	-	-	-	-	2,037	1,388	2,620	2,511	3,129	4,708
Five years later	-	-	-	-	-	1,449	2,693	2,633	3,157	4,919
Six years later	-	-	-	-	-	-	2,740	2,671	3,166	5,020
Seven years later	-	-	-	-	-	-	-	2,693	3,213	5,075
Eight years later	-	-	-	-	-	-	-	-	3,253	5,110
Nine years later	-	-	-	-	-	-	-	-	-	5,118
Re-estimated incurred claims and claims expense:										
End of policy year	1,700	2,184	1,473	4,621	4,979	5,811	6,512	6,352	7,041	5,913
One year later	-	2,821	1,638	1,811	5,409	5,811	6,413	6,670	6,770	5,656
Two years later	-	-	1,792	2,078	2,342	5,882	6,413	6,670	7,163	5,656
Three years later	-	-	-	2,051	2,311	1,664	6,593	6,670	7,163	6,020
Four years later	-	-	-	-	2,363	1,601	3,038	6,670	7,163	6,020
Five years later	-	-	-	-	-	1,601	3,031	2,906	7,163	6,020
Six years later	-	-	-	-	-	-	3,071	2,916	3,492	6,020
Seven years later	-	-	-	-	-	-	-	2,922	3,476	5,421
Eight years later	-	-	-	-	-	-	-	-	3,486	5,391
Nine years later	-	-	-	-	-	-	-	-	-	5,410
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	637	319	(2,570)	(2,616)	(4,210)	(3,441)	(3,430)	(3,555)	(503)

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





**Postlethwaite & Netterville**

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**Report on Compliance and on Internal Control Over Financial  
Reporting Based on an Audit of Financial Statements Performed in  
Accordance with Government Auditing Standards**

Officers and Trustees  
Louisiana Municipal Risk Management Agency  
Workers' Compensation Fund:

We have audited the financial statements of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund as of and for the year ended December 31, 2001, and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Risk Management Agency - Workers' Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002



**LOUISIANA MUNICIPAL**  
**RESERVE FUND AGENCY**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

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### INDEPENDENT AUDITORS' REPORT

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency

We have audited the accompanying balance sheets of Louisiana Municipal Reserve Fund Agency (a quasi-public organization) (the Fund) as of December 31, 2001 and 2000 and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Reserve Fund Agency as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 3, 2002, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information included on page 12 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The information pertaining to the years ended December 31, 2001 and 2000 has been subjected to the auditing procedures applied in the audits of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**BALANCE SHEETS**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

	<u>2001</u>	<u>2000</u>
Cash (note 4)	\$ 100,142	\$ 100,401
Investments (note 4)	35,548,600	33,539,745
Accrued interest receivable	367,770	373,513
Other receivables	32,817	-
Reinsurance receivable	27,553	3,145
	<u>\$ 36,076,882</u>	<u>\$ 34,016,804</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 3)	\$ 12,323,000	\$ 11,741,000
Unearned premiums	33,590	41,800
Due to affiliates (note 2)	681,388	665,857
Accrued expenses	14,707	11,525
	<u>13,052,685</u>	<u>12,460,182</u>
Retained earnings	<u>23,024,197</u>	<u>21,556,622</u>
	<u>\$ 36,076,882</u>	<u>\$ 34,016,804</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL**  
**RESERVE FUND AGENCY**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b><u>REVENUES:</u></b>		
Premium income (note 2)	\$ 1,715,043	\$ 1,697,342
Investment income (note 4)	<u>2,574,977</u>	<u>2,888,788</u>
Total revenue	<u>4,290,020</u>	<u>4,586,130</u>
<b><u>EXPENSES:</u></b>		
Claims expense (note 3)	2,528,469	2,355,336
Reinsurance premium	237,825	237,825
Miscellaneous	<u>56,151</u>	<u>54,998</u>
Total expenses	<u>2,822,445</u>	<u>2,648,159</u>
Net income	1,467,575	1,937,971
Retained earnings, beginning of year	<u>21,556,622</u>	<u>19,618,651</u>
Retained earnings, end of year	<u><u>\$ 23,024,197</u></u>	<u><u>\$ 21,556,622</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net income	\$ 1,467,575	\$ 1,937,971
Less adjustment for investment income	<u>(2,574,977)</u>	<u>(2,888,788)</u>
	<u>(1,107,402)</u>	<u>(950,817)</u>
Adjustments to reconcile net income to net cash used in operations:		
Change in due to affiliates, reinsurance receivable, other receivables	(41,695)	425,665
Change in unpaid claims liability	582,000	(479,000)
Change in unearned premiums reinsurance payable, and accrued expenses	<u>(5,028)</u>	<u>8,068</u>
Total adjustments	<u>535,277</u>	<u>(45,267)</u>
Net cash used in operating activities	<u>(572,125)</u>	<u>(996,084)</u>
Cash flows from investing activities:		
Purchase of investments	(19,714,564)	(12,756,810)
Proceeds from sale/maturity of investments	18,227,111	11,763,469
Investment interest received	<u>2,059,319</u>	<u>1,989,481</u>
Net cash provided by investing activities	<u>571,866</u>	<u>996,140</u>
Net increase (decrease) in cash	(259)	56
Cash, beginning of year	<u>100,401</u>	<u>100,345</u>
Cash, end of year	<u><u>\$ 100,142</u></u>	<u><u>\$ 100,401</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

***(a) Background and Financial Statement Presentation***

Louisiana Municipal Reserve Fund Agency (LMRFA or the Fund) was formed under Louisiana Revised Statutes 33:1349(e). LMRFA consists of interlocal risk management agencies pooling excess funds to provide reinsurance. Administration of the Agency is vested in the Executive Board of LMA. LMRFA reinsures the Louisiana Municipal Risk Management Agency (LMRMA) Public Liability and Workers' Compensation Funds. During 2001 and 2000, LMRFA also reinsures two and three municipalities, respectively.

LMRMA was formed under Louisiana Act No. 462 of 1979 to provide a program of worker's compensation, accident and health, and public liability coverage for its member organizations. In accordance with Revised Statutes 33:1341-1350, all local government subdivisions in the state of Louisiana are eligible to participate. The program's general objectives are to formulate, develop, and administer, on behalf of the member local governmental subdivisions, a program of interlocal risk management, to obtain lower costs for that coverage, and to develop a comprehensive loss control program. Local governmental subdivisions joining the Fund must be members of the Louisiana Municipal Association; a member may withdraw from the Fund by giving proper notice. Fund underwriting and rate-setting policies have been established by the Board of LMRMA after actuarial consultation. If the assets of the Fund were to be exhausted, members would only be responsible for their respective outstanding claims.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a non-profit corporation under the laws of the State of Louisiana. LMA acts as the administrator for LMRFA.

Risk Management, Inc. (RMI) is a third-party service agent primarily for LMRMA insurance funds and LMRFA. RMI, a Louisiana Corporation, is a wholly-owned subsidiary of LMA.

The various LMRMA Funds, LMRFA, LMA and RMI are all affiliated through common membership and management control. Although all of these entities are related parties, their various retained earnings are available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

***(b) Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict with or contradict GASB pronouncements.





**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(c) *Investments***

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Investments include certificates of deposit, money market accounts, repurchase agreements, and U.S. Government Agency and Treasury obligations.

**(d) *Premium Income***

The premium income of LMRFA collected in the current year is based on a percentage of premium of LMRMA workers' compensation and public liability funds (see note 2). Pursuant to the reinsurance agreement, the LMRMA Funds are responsible for all of LMRFA's claims servicing and administrative costs. For the years ended December 31, 2001 and 2000, LMRFA provided reinsurance directly to municipalities for a total premium of \$108,301 and \$129,912, respectively. The costs associated with new and renewed contracts, as acquisition costs, are immaterial to the financial statements and are expensed when incurred.

**(e) *Unpaid Claims Liability***

The policy liabilities reinsured by the Fund are for claims incurred during the benefit period, regardless of when the claims are reported. The Fund establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability, and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims frequency, and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflects past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made. The carrying amount of liabilities for claims losses and claims expenses are presented at present value in the financial statements. Such reserves have been discounted at 5.8% at December 31, 2001 and 2000.

**(f) *Statement of Cash Flows***

For the purpose of the statements of cash flows, cash includes cash in-demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more, they are classified as investments (see note 4).



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(h) *Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**2. RELATED PARTY TRANSACTIONS**

LMA, RMI and LMRFA provide services related to the self-insurance funds operated for the benefit of Louisiana municipalities. The fees for these services are based on a percentage of the respective earned standard premiums (ESP) as follows:

	<u>Fee Basis</u>	<u>2001</u>	<u>2000</u>
Premium income:			
LMRMA:			
Public Liability	18.0% ESP	\$ 1,312,959	\$ 1,273,063
Workers' Compensation	7.0% ESP	<u>293,783</u>	<u>294,367</u>
		<u>\$ 1,606,743</u>	<u>\$ 1,567,430</u>
Due to affiliates:			
LMRMA:			
Public Liability		\$ 265,713	\$ 305,405
Workers' Compensation		<u>415,875</u>	<u>360,452</u>
		<u>\$ 681,388</u>	<u>\$ 665,857</u>



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**3. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate liabilities for the Fund for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(Amounts in thousands)	
Liability for unpaid losses at beginning of year (gross)	\$ 11,741	\$ 12,220
Less: Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at beginning of year (net)	<u>11,741</u>	<u>12,220</u>
Net incurred related to:		
Current year	1,830	1,323
Prior years	<u>698</u>	<u>1,032</u>
Total incurred	<u>2,528</u>	<u>2,355</u>
Net paid related to:		
Current year	<u>-</u>	<u>-</u>
Prior years	<u>1,946</u>	<u>2,834</u>
Total paid	<u>1,946</u>	<u>2,834</u>
Liability for unpaid losses at end of year (gross)	12,323	11,741
Reinsurance recoverables (net)	<u>-</u>	<u>-</u>
Liability for unpaid losses at end of year (net)	<u>\$ 12,323</u>	<u>\$ 11,741</u>

The Fund's claims payable have been discounted for December 31, 2001 and 2000 based on the Fund's anticipated payout patterns and a discount rate assumption of 5.8%, which management expects to approximate the interest earnings over the payout period. The effect of the reserve discounts was \$4,397,000 and \$5,067,000 at December 31, 2001 and 2000, respectively.

**4. DEPOSITS AND INVESTMENTS**

LMRFA must comply with Rule Number 4 of the Commissioner of Insurance, State of Louisiana. According to Rule Number 4, all deposits in financial institutions made by this fund shall be limited to institutions in Louisiana unless a higher rate can be obtained in an out-of-state institution. Deposits in financial institutions may exceed the federally insured amount in any one financial institution, as long as the amount is not in excess of the greater of \$500,000 or 5% of the combination of surplus, undivided profits and reserves as currently reported by the financial institution. In regard to deposits and investments, the Fund was in compliance with these revised provisions during the years ended December 31, 2001 and 2000.

The demand deposits are categorized below to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance. "Uninsured" deposits are those balances in excess of federal depository insurance or pledged collateral.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

	<u>2001</u>	<u>2000</u>
Insured	\$ 100,142	\$ 100,401
Uninsured	<u>-</u>	<u>-</u>
	<u>\$ 100,142</u>	<u>\$ 100,401</u>

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.

The Fund's investments are categorized below to give an indication of the level of risk assumed by the Fund at year-end. Category 1 investments include securities which are insured or registered or securities held by LMRFA or its agent in LMRFA's name. The U.S. Government agency obligation investments are direct obligations registered in the name of the Fund and held by the Fund's investment agent. Money market accounts are collateralized by obligations of the U.S. Government registered in the name of and held by the Fund's agent. The amortized cost of the Fund's investments are \$34,734,220 and \$31,155,392 at December 31, 2001 and 2000, respectively. The estimated fair value for investments by type at December 31, 2001 and 2000, are as follows:

	<u>2001</u>		<u>2000</u>	
	<u>Estimated Fair Value</u>	<u>Category</u>	<u>Estimated Fair Value</u>	<u>Category</u>
Money market accounts	\$ 2,205,517	-	\$ 2,405,808	-
U.S. Government Agency obligations	26,567,677	1	22,631,276	1
U.S. Treasury obligations	<u>6,775,406</u>	1	<u>8,502,661</u>	1
	<u>\$ 35,548,600</u>		<u>\$ 33,539,745</u>	



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**

**4. DEPOSITS AND INVESTMENTS (continued)**

The scheduled maturities, at estimated fair value, of securities held were as follows at December 31:

	<u>Amortized Cost</u>	<u>Fair Market Value</u>
Due in one year	\$ 2,205,517	\$ 2,205,517
Due after one year through five years	8,702,606	8,964,846
Due after five years through ten years	8,826,737	9,041,213
Due after ten years	<u>14,999,360</u>	<u>15,337,024</u>
	<u>\$ 34,734,220</u>	<u>\$ 35,548,600</u>

Included in investment balances as of December 31, 2001 and 2000 are derivative investments. These investments included U.S. Treasury strips, collateralized mortgage obligations, and floating rate securities with a market value of \$1,179,784 and \$3,321,645 as of December 31, 2001 and 2000, respectively. These derivative investments are interest rate sensitive and, as a result, could experience future market value fluctuations.

Investment income for the years ended December 31, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Interest income	\$ 1,991,614	\$ 1,972,477
Realized gains (losses) – net	153,336	( 30,658)
Unrealized gains arising during the year	<u>430,027</u>	<u>946,969</u>
	<u>\$ 2,574,977</u>	<u>\$ 2,888,788</u>

**5. REINSURANCE POLICY COVERAGE**

LMRMA and LMRFA represent a cooperative program for group funding and risk management of public liability claims of participating Louisiana municipalities. Although premiums billed to the participants are determined on an actuarial basis, ultimate liability for claims remains with the participants.





**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2001 AND 2000**

**5. REINSURANCE POLICY COVERAGE (continued)**

**Assumed:**

For the years ended December 31, 2001 and 2000, LMRFA provided excess reinsurance to LMRMA Public Liability and Workers' Compensation Funds with the following limits:

**Workers' Compensation Fund**

Item I: \$2,000,000 annual aggregate in excess of 80% of earned normal premium

Item II: \$2,000,000 each and every loss in excess of \$175,000 each and every loss

**Public Liability Fund**

Item I: \$5,000,000 annual aggregate in excess of 65% of earned normal premium

Item II: \$400,000 each and every loss in excess of \$100,000 each and every loss

The LMRMA Accident and Health Fund obtained commercial reinsurance effective January 1, 1995 and is not covered by LMRFA. As of December 31, 2001 and 2000, the Fund had no outstanding reserves related to the LMRMA Accident and health Fund.

As of December 31, 2001 and 2000, LMRFA also provides excess reinsurance for 2 and 3 municipalities for workers' compensation claims up to an annual aggregate amount ranging from 80% to 90% of their standard premium, respectively.

**Ceded:**

Effective January 1, 1995, LMRFA obtained commercial reinsurance to cover a portion of the workers' compensation medical losses. For the years ended December 31, 2001 and 2000, LMRFA obtained reinsurance with the following coverage:

**Workers' Compensation Fund**

Item I: \$2,000,000 annual aggregate

Item II: \$1,000,000 each and every loss in excess of \$50,000 each and every loss up to \$750,000

No reinsurance is obtained for the Public Liability Fund coverage.



**LOUISIANA MUNICIPAL  
RESERVE FUND AGENCY**

**SCHEDULE**

**DECEMBER 31, 2001**

The table below illustrates the Fund's earned normal premium and investment income compared to related costs and claims expense incurred by the Fund as of the end of 2001 and as of the end of each of the last nine years.

	<u>2001</u>	<u>2000</u>	<u>1999</u>	<u>1998</u>	<u>1997</u> <sup>(1)</sup>	<u>1996</u>	<u>1995</u>	<u>1994</u>	<u>1993</u>	<u>1992</u>
	(in thousands)									
ENP and investment income	\$ 4,290	\$ 4,586	\$ 2,591	4,474	5,004	4,142	4,327	4,443	4,897	4,079
Operating costs, unallocated	294	293	135	407	483	415	427	20	17	2
Estimated incurred claims and expense, end of policy year	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144	3,130	4,754
Paid (cumulative) as of:										
End of policy year	-	-	-	-	140	-	-	195	627	207
One year later	-	69	431	-	140	-	-	487	627	988
Two years later	-	-	737	775	252	69	283	490	1,175	1,710
Three years later	-	-	-	859	555	247	1,289	542	1,265	2,675
Four years later	-	-	-	-	571	650	1,350	1,155	1,446	3,700
Five years later	-	-	-	-	-	1,277	1,423	1,166	2,104	2,701
Six years later	-	-	-	-	-	-	1,585	1,172	2,136	2,844
Seven years later	-	-	-	-	-	-	-	1,312	2,621	3,022
Eight years later	-	-	-	-	-	-	-	-	2,661	3,060
Nine years later	-	-	-	-	-	-	-	-	-	3,137
Re-estimated incurred claims and claims expense:										
End of policy year	2,309	1,783	1,983	2,302	3,901	3,887	3,793	4,144	3,130	4,754
One year later	-	1,624	2,319	2,352	2,016	2,083	2,293	4,230	3,792	4,174
Two years later	-	-	3,690	2,434	1,906	1,367	3,818	2,304	3,146	5,501
Three years later	-	-	-	2,167	1,630	1,574	3,367	2,010	2,973	5,382
Four years later	-	-	-	-	1,434	1,795	3,099	2,219	3,178	4,501
Five years later	-	-	-	-	-	1,796	2,795	2,168	3,388	4,309
Six years later	-	-	-	-	-	-	2,739	2,282	3,032	4,144
Seven years later	-	-	-	-	-	-	-	2,171	3,292	4,055
Eight years later	-	-	-	-	-	-	-	-	3,133	4,133
Nine years later	-	-	-	-	-	-	-	-	-	3,805
Increase (decrease) in estimated incurred claims and expense from end of policy year	-	(159)	1,707	(135)	(2,467)	(2,091)	(1,054)	(1,973)	3	(949)

(1) Effective January 1, 1996, the Fund accounted for investments on a fair value basis.

See accompanying independent auditors' report.





## Postlethwaite & Netterville

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### Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Officers and Trustees  
Louisiana Municipal Reserve Fund Agency:

We have audited the financial statements of Louisiana Municipal Reserve Fund Agency (the Fund) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Reserve Fund Agency, the Louisiana Legislative Auditor's Office and the Louisiana Commissioner of Insurance, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

LMRMA -  
Unemployment Comp.

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**  
**FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 AND 2000**





**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

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**INDEPENDENT AUDITORS' REPORT**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund

We have audited the accompanying balance sheets of Louisiana Municipal Association - Unemployment Compensation Fund (a quasi-public organization) (the Fund) as of December 31, 2001 and 2000, and the related statements of revenues, expenses and changes in retained earnings, and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and with *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Louisiana Municipal Association - Unemployment Compensation Fund as of December 31, 2001 and 2000, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report, dated May 3, 2002, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002

**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**BALANCE SHEETS**  
**DECEMBER 31, 2001 AND 2000**

**ASSETS**

	<u>2001</u>	<u>2000</u>
Cash (note 3)	\$ 104,388	\$ 36,297
Investments (note 3)	6,978,837	6,725,616
Accounts receivable	57,348	78,919
Accrued interest receivable	<u>86,050</u>	<u>92,555</u>
	<u>\$ 7,226,623</u>	<u>\$ 6,933,387</u>

**LIABILITIES AND RETAINED EARNINGS**

Liabilities:		
Unpaid claims liability (note 4)	\$ 100,000	\$ 42,481
Accrued expenses	14,211	13,345
Policyholder dividend payable (note 2)	<u>191,490</u>	<u>186,542</u>
	305,701	242,368
Retained earnings (note 5)	<u>6,920,922</u>	<u>6,691,019</u>
	<u>\$ 7,226,623</u>	<u>\$ 6,933,387</u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN RETAINED EARNINGS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
<b><u>REVENUES:</u></b>		
Premium income	\$ 212,679	\$ 180,051
Investment income	<u>523,866</u>	<u>609,877</u>
Total revenues	<u>736,545</u>	<u>789,928</u>
<b><u>EXPENSES:</u></b>		
Claims expense (note 4)	275,081	142,052
Service agent fees	23,843	29,423
Policyholder dividend (note 2)	191,490	186,542
Miscellaneous	<u>16,228</u>	<u>7,381</u>
Total expenses	<u>506,642</u>	<u>365,398</u>
Net income	229,903	424,530
Retained earnings, beginning of year	<u>6,691,019</u>	<u>6,266,489</u>
Retained earnings, end of year	<u><u>\$ 6,920,922</u></u>	<u><u>\$ 6,691,019</u></u>

See accompanying notes to financial statements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2001 AND 2000**

	<u>2001</u>	<u>2000</u>
Cash flows from operating activities:		
Net income	\$ 229,903	\$ 424,530
Less adjustment for investment income	<u>(523,866)</u>	<u>(609,877)</u>
	<u>(293,963)</u>	<u>(185,347)</u>
Adjustments to reconcile net income to net cash used in operations:		
Changes in operating assets and liabilities:		
Accounts receivable	21,571	2,195
Unpaid claims liability	57,519	2,561
Accrued expenses and dividend payable	<u>5,814</u>	<u>92,925</u>
Total adjustments	<u>84,904</u>	<u>97,681</u>
Net cash used in operating activities	<u>(209,059)</u>	<u>(87,666)</u>
Cash flows from investing activities:		
Purchases of investments	(3,823,798)	(3,590,439)
Proceeds from sale or maturity of investments	3,665,077	3,200,468
Interest income received	<u>435,871</u>	<u>408,353</u>
Net cash provided by investing activities	<u>277,150</u>	<u>18,382</u>
Net increase (decrease) in cash	68,091	(69,284)
Cash, beginning of year	<u>36,297</u>	<u>105,581</u>
Cash, end of year	<u><u>\$ 104,388</u></u>	<u><u>\$ 36,297</u></u>

See accompanying notes to financial statements.





**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 and 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES**

**(a) *Background and Financial Statement Presentation***

Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) was formed under Louisiana Revised Statutes 23:1552. The Fund consists of Louisiana municipalities joined together in self-insurance agreements with respect to unemployment compensation fund insurance. Administration of the Fund is vested in the Executive Board of Louisiana Municipal Association.

Louisiana Municipal Association (LMA) is an association for the municipalities of Louisiana and is incorporated as a nonprofit corporation under the laws of the State of Louisiana. LMA acts as the administrator for the Fund.

As of December 31, 2001, there were 6,085 participants and 142 participating municipalities. As of December 31, 2000, there were 5,598 participants and 137 participating municipalities.

The Fund and LMA are affiliated through common membership and management control. Although both of these entities are related parties, their equity is available only to the individual entity for its operations. For this reason each entity is presented as a separate "stand alone" entity in accordance with GASB 10 and GASB 14.

**(b) *Basis of Accounting***

The Fund is considered an enterprise fund and, accordingly, uses the accrual method of accounting and the flow of economic resources measurement focus. The Fund applies all applicable FASB pronouncements issued on or before November 30, 1989 in accounting for its operations unless those pronouncements conflict or contradict GASB pronouncements.

**(c) *Cash and Cash Flows***

For the purposes of the statements of cash flows, cash includes cash in demand deposit accounts with banks. Because certificates of deposit, money markets and repurchase agreements are usually purchased with maturities of 90 days or more or are reinvested continuously, they are classified as investments.

**(d) *Investments***

Investments are reported at fair value except for short-term and money market investments, consisting primarily of U.S. Treasury obligations with a maturity of one year or less at time of purchase, which are reported at cost. Fair value is based on the last reported sales price if available; if not available, fair value is based on estimated fair value. Realized and unrealized gains and losses on investments recorded at fair value are included in investment income. Included in investments are certificates of deposit with original maturities of greater than 90 days, deposits in money market accounts, certificates of deposit, investments in U.S. Government Agency Obligations and Treasury and short-term repurchase agreements.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 and 2000**

**1. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**(e) *Unpaid Claims Liability***

Claims expense consists of estimated amounts for claims incurred during the current year and adjustments to the accounting estimate of prior years' claims expense. Because the adjustment to prior years' loss amounts represents changes in accounting estimates, these changes are reflected in earnings in the period they become known. The Fund establishes claim liabilities based on estimates of the ultimate cost of claims that have been reported, but not yet settled.

**(f) *Income Taxes***

The Fund is exempt from federal income taxes under Sections 7701 and 115(1) of the Internal Revenue Code.

**(g) *Premium Income and Accounts Receivable***

Premiums are recognized as income over the life of the policies as they become earned. Any adjustments to annual premiums are considered to be a change in estimate and are recognized in the year they become known.

Accounts receivable are considered to be fully collectible by management; therefore, no reserve for bad debts has been established.

**(g) *Use of Estimates***

Management of the Fund has made a number of estimates and assumptions relating to the reporting of assets and liabilities to prepare these financial statements in conformity with accounting principles generally accepted in the United States of America. Actual results could differ from those estimates.

**2. RELATED PARTY TRANSACTIONS**

In 2000, the LMA board approved a rebate of \$186,542 of 1999 interest earnings which was paid to members of the Fund in 2001. This rebate is to be prorated on premium payments for the year 1999 and paid to those municipalities that were members of the Fund as of December 31, 1999.

In 2001, the LMA board approved a rebate of \$191,490 of 2000 interest earnings to be paid to members of the Fund in 2002. This rebate is to be prorated on premium payments for the year 2000 and paid to those municipalities that were members of the Fund as of December 31, 2000.



**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

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**3. CASH AND INVESTMENTS**

Cash in banks is carried at cost. Certificates of deposit, money market accounts and repurchase agreements are included in investments as their average maturity is greater than 90 days and the amounts are reinvested continuously.

The demand deposits are categorized to give an indication of the level of risk assumed at year end. "Insured" deposits are those balances protected by federal depository insurance or pledged collateral. "Uninsured" deposits are those balances in excess of federal depository insurance. Bank account balances and certificates of deposit as listed below are either insured or secured by collateral as follows:

	<u>2001</u>	<u>2000</u>
Insured	\$ 100,000	\$ 36,297
Uninsured	<u>4,388</u>	<u>-</u>
	<u>\$ 104,388</u>	<u>\$ 36,297</u>

Under Rule Number 4 of the Commissioner of Insurance, State of Louisiana, the Fund may invest any surplus monies in obligations of the U.S. Government and its Agencies, as well as financial institutions. Included in investments are certificates of deposit, money market accounts and repurchase agreements.

The Fund's investments are categorized as follows to give an indication of the level of risk assumed by the Fund at year-end. Category 1 securities are held by the Fund or its agent in the Fund's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's trust department or agent in the Fund's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the broker or dealer, or by its trust department or agent, but not in the Fund's name.



**LOUISIANA MUNICIPAL ASSOCIATION**  
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**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2001 and 2000**

**3. CASH AND INVESTMENTS (continued)**

The amortized cost of the Fund's investments is \$6,842,978 and \$6,691,182 at December 31, 2001 and 2000, respectively. The estimated fair value for investments by type at December 31 is as follows:

	<u>2001</u>		<u>2000</u>	
	<u>Estimated Fair Value</u>	<u>Category</u>	<u>Estimated Fair Value</u>	<u>Category</u>
Money market accounts	\$ 261,173	-	\$ 153,850	-
U.S. Government Agency obligations	2,661,813	1	2,904,573	1
U.S. Treasury securities	<u>4,055,851</u>	<u>1</u>	<u>3,667,193</u>	<u>1</u>
	<u>\$ 6,978,837</u>		<u>\$ 6,725,616</u>	

The estimated fair value of securities held at December 31, 2001, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	<u>Amortized Cost</u>	<u>Fair Market Value</u>
Due in one year	\$ 820,718	\$ 827,017
Due after one year through five years	2,863,459	2,946,801
Due after five years through ten years	1,667,817	1,692,019
Due after ten years	<u>1,490,984</u>	<u>1,513,000</u>
	<u>\$ 6,842,978</u>	<u>\$ 6,978,837</u>

Included in investment balances as of December 31, 2001 and 2000 are derivative investments. These investments included U.S. Treasury strips and collateralized mortgage obligations with market values of \$673,166 and \$763,590 as of December 31, 2001 and 2000, respectively. These derivative investments are interest rate sensitive, and as a result, could experience significant future market value fluctuations.

Investment income for the years ended December 31, 2001 and 2000 consists of the following:

	<u>2001</u>	<u>2000</u>
Interest income	\$ 382,362	\$ 385,763
Realized gains (losses) – net	40,079	( 29,369)
Unrealized gains arising during the year	<u>101,425</u>	<u>253,483</u>
	<u>\$ 523,866</u>	<u>\$ 609,877</u>





**LOUISIANA MUNICIPAL ASSOCIATION**  
**UNEMPLOYMENT COMPENSATION FUND**

**NOTES TO FINANCIAL STATEMENTS**  
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**4. CLAIMS EXPENSE AND UNPAID CLAIMS LIABILITY**

The following represents changes in the aggregate unpaid claims liability for the Fund for the years ended December 31, 2001 and 2000:

	<u>2001</u>	<u>2000</u>
	(in thousands)	
Unpaid claims and claims adjustment expenses liability at beginning of year	\$ <u>42</u>	\$ <u>40</u>
Incurred claims and claim adjustment expenses		
Provision for insured events of the Current year	<u>275</u>	<u>142</u>
Payments:		
Claims and claim adjustment expenses		
Attributable to insured events of current Year	175	100
Claims and claim adjustment expenses		
Attributable to insured events of prior Years	42	40
Total payments	<u>217</u>	<u>140</u>
Total unpaid claims and claim adjustment expenses liability at end of year	\$ <u>100</u>	\$ <u>42</u>

**5. SUBSEQUENT EVENTS**

In 2002, the LMA board approved a return of \$3,617,000 of excess funds to be paid during 2002 to members of the Fund. This rebate is to be pro-rated on premium payments for the years 1979 - 2000 and paid to those municipalities that were members of the Fund as of December 31, 2001.







**Postlethwaite & Netterville**

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**Report on Compliance and on Internal Control over Financial  
Reporting Based on an Audit of Financial Statements Performed  
in Accordance with Government Auditing Standards**

Officers and Trustees  
Louisiana Municipal Association  
Unemployment Compensation Fund

We have audited the financial statements of Louisiana Municipal Association - Unemployment Compensation Fund (the Fund) as of and for the year ended December 31, 2001, and have issued our report thereon dated May 3, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Compliance**

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Louisiana Municipal Association - Unemployment Compensation Fund, the Louisiana Legislative Auditor's Office and the Commissioner of Insurance, State of Louisiana, and is not intended to be and should not be used by anyone other than these specified parties.

*Postlethwaite & Netterville*

Baton Rouge, Louisiana  
May 3, 2002